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TAGS: [ETRD](#) [BTIO](#) [KTIA](#) [ELAB](#) [KTEX](#) [ECON](#) [ELTN](#) [PGOV](#) [JO](#)
SUBJECT: JORDAN LEADERS START THEIR ENGINES IN WORLD
GARMENT RACE AS QIZ'S CREATE MORE JOBS

REF: A. 05 AMMAN 8228

[1](#)B. 05 AMMAN 7495
[1](#)C. 05 AMMAN 5130
[1](#)D. 05 AMMAN 1147
[1](#)E. 05 AMMAN 0013

Classified By: AMBASSADOR DAVID HALE FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) SUMMARY: King Abdullah's address to leading U.S. garment industry CEOs February 3 in Washington marks a turning point in Jordan's rapid entry into this sector in the global market. With apparel exports topping \$1 billion in 2005, Jordan has arrived on the world garments scene and will work hard to maintain its position, even in the face of U.S. quotas on Chinese garments disappearing in 2009. The two-pronged strategy to (1) leverage unique U.S. preferential trade agreements, and (2) combine proximity to and trade arrangements with the EU, give Jordan unparalleled access to these critical markets and allow room to develop a sustainable, modern (if small) garments industry. Job creation is a critical benefit in a country with 13.4% unemployment -- the QIZs account for at least 50,000 workers. With the King's full support, Minister of Industry and Trade Sharif Zu'bi has fashioned a package of far-reaching initiatives, begun in Spring 2005, to cement the strong export gains made in the garment sector by Qualifying Industrial Zone (QIZ) factories and to position the "Made in Jordan" label in the U.S. and EU. However, hard-charging Minister Zu'bi's policy overhaul to make QIZ's into fine-tuned racing machines in the post-MFA world ran into policy engine trouble at the end of 2005 due to an unsympathetic cabinet and bureaucratic delays. Zu'bi is more hopeful that the new cabinet backs his aggressive moves, insiders report.

[1](#)2. (C) SUMMARY (CONT.): QIZ factory owners are taking more independent initiatives, and their manufacturers' association is building an advocacy machine to cut through red tape and official inertia. King Abdullah will bring Zu'bi and the garment manufacturers association head with him to the Washington event with U.S. apparel company CEO's (including six from Fortune 500 companies the likes of JC Penney and The Gap). This will be a prelude to Jordan's national pavilion showing in the garment sector's "Magic Show" in Las Vegas Feb. 21-24. While the momentum is building for the garment industry, the major government and business players have no illusions about the need for even more major fundamental changes in the way the Jordanian government does business,

and see themselves as pioneers in forcing change to increase competitiveness. END SUMMARY.

QIZs: Jobs For Jordanians

¶3. (U) Qualifying Industrial Zone (QIZ) factories are exporting duty free to the U.S. garments with 8 percent Israeli content (NOTE: in 1998-2004, QIZ exports were also quota-free, attracting major buyers and stimulating dozens of factory start-ups). More than 95 percent of QIZ factory output is in apparel, which constituted more than \$920 million in QIZ exports to the U.S. alone in 2004 and is estimated to exceed \$1 billion in 2005. QIZ apparel is shipped directly to buyers such as Macy's, Lee, Levi's, JC Penney, Walmart, Liz Claiborne, Nordstrom's, and The Gap.

¶4. (SBU) QIZ factories now account for more than 95 percent of all apparel workers in Jordan, which by government estimates number more than 50,000. About half of these are foreign laborers under contract. To phase out the reliance on foreign laborers and to tackle Jordan's 13.4 percent unemployment rate, the Ministry of Labor (MOL) recently reached an innovative agreement with six QIZ garment factories to support more training for about 1,000 Jordanian laborers annually. This is only one of a package of proposed far-reaching initiatives overseen by the Minister of Industry and Trade, who has been pushing behind the scenes to turn Jordan's many "plans" into action. The MOL will fund the training of these 1,000 Jordanian for periods of 3-6 months, including free transportation, meals, and medical care. In return, the companies agree to hire the employees for a year during which a special MOL bonus scheme will apply. Commentators who criticized the last vocational training scheme -- run exclusively by the MOL and producing "tailors

not production workers," they said -- praise the plan for its realistic goal-setting, including a provision that the MOL does not pay unless a trainee actually ends up working. The employers are incentivized to offer incentives themselves.

MOL Overcomes "No Good Deed Goes Unpunished" Syndrome

¶5. (SBU) The MOL scheme agreed to in early December ran into trouble when the bureaucracy initially ruled that the trainee payments were not legal. MOL lawyers finally solved the payment problem the week of January 21 and factories are proceeding with high-visibility employment ads in daily newspapers, including testimonials from their best Jordanian workers. The industry group, Jordan Garments, Accessories & Textiles Association (JGATE), will ramp up its campaign to recruit Jordanian workers by going out to visit thought leaders in the communities, especially where unemployment is high, said JGATE CEO Rashed Darwazeh. JGATE's goal is to have 1,000 new Jordanian workers this year. Minister of Labor Bassem Salem told Econoff his goal is 3,000 Jordanian garment workers trained and working within the next three years. JGATE's Darwazeh said the long-term goal is to have Jordanians comprise 70 percent of the apparels workforce, which some trade ministry planners say could continue to grow to as high as 100,000 if all of Jordan's potential markets (read: EU) become fully accessible.

Reforms Speed Delivery, Bring Down Cost Structure...

¶6. (C) Darwazeh's JGATE is working closely with Minister Zu'bi to address Jordan's systemic problems in four critical areas: logistics, water supply, wastewater treatment, and electricity. The details of extra fees and charges are so complex that JGATE has a powerpoint presentation to make sense out of it. To give one example, the government electricity generating agencies charge ten times the normal rate to industries during peak evening hours -- for QIZ garment producers on tight delivery deadlines those are crucial production hours when thousands of sewing machines will be in operation. An industrial rate is needed, said

Darwazeh. In short, Darwazeh claims that the GOJ can bring Jordan's cost structure to within 20 percent of the current Egyptian QIZ cost structure if the government makes all of the right adjustments (excluding labor costs).

...With Some Slow Going...

17. (C) Darwazeh told Econoff that he is seeing "movement on every front" of the reform package, but that it was "very slow" at the end of last year. JGATE has a full-time advocate to push policy changes forward (NOTE: a rare occurrence in Jordan; such persons operating professionally and transparently were non-existent until recently), who can cite chapter and verse the government roadblocks. According to Darwazeh, when Minister Zu'bi is briefed on the difficulties, he steps in to cut through red tape (when he can). But some bureaucracies are resistant, noted Darwazeh. After the cabinet decided to exempt from customs duties newly imported buses that QIZ factories were using to transport their workers to and from work, the Finance Ministry revenue department told the Customs Department to instruct its agents that the only companies to qualify must have registered capital of JD 5 million (about \$7 million). This is well over any garment factory's base and it just so happens that this is the base for transportation companies.

...But Brighter Days Ahead

18. (C) Similar horror stories exist regarding excessive taxation of benefits (which include those bus rides for employees that the Finance Ministry insists must be monetized), and social security withholding, to name just two. The JGATE board is meeting January 28 to sort through the next group of anti-growth policies to reverse or amend, said Darwazeh, who added that Minister Zu'bi is now excited by the new cabinet, which Zu'bi sees supporting initiatives to enhance competitiveness. Darwazeh added that Zu'bi did not so uniformly praise the last cabinet, which he believed was not supporting his pro-manufacturer reforms. (NOTE:

Darwazeh added that, in the last cabinet, it did not help when Finance Minister Al Kodah formed a unified resistance with fellow relative Eyad Al Kodah, head of the revenue department.) An indication of the Trade Minister's level of support: the GOJ is footing most of the \$250,000 cost for Jordan's garment trade missions this year.

First New York, then on to the "Magic Show"

19. (SBU) JGATE will launch two garment trade missions to the U.S. in February in collaboration with minister Zu'bi. In New York they will call on some of the big garment labels headquartered there, including Liz Claiborne. On Feb. 21-24, JGATE will have a 950 square-meter Jordan pavilion at the Las Vegas Convention Center's "Magic Show" to include five factory exhibitors along with Jordan Embassy and JGATE booths. Zu'bi and Darwazeh will be joined by some industry leaders to speak about high quality production in Jordan under the QIZ and FTA.

110. (C) COMMENT: As Minister Zu'bi's efforts indicate, Jordanian economic planners have no illusions about the difficulties the garment industry will undergo in the next few years. However, the level of sophistication being brought to bear on the GOJ's garments trade policy and the emphasis on competitiveness are becoming more widely evident.

As more and more QIZ factories turn to sewing lines with FTA-only products (requiring no Israeli content, which is expensive), the "Made in Jordan" label can be expected to be even more competitive in the U.S. market.

Hale